

Message Text

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AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
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C O N F I D E N T I A L SECTION 1 OF 2 REYKJAVIK 0042

E.O. 11652: GDS
TAGS: PINT, PFOR, MARR, IC, US, NATO
SUBJECT: STATE OF COALITION AND IMPLICATIONS FOR US

REF: REYKJAVIK 1099, AUGUST 16, 1976

SUMMARY: WELL INTO THE SECOND HALF OF ITS MAXIMUM FOUR-YEAR TERM, ICELAND'S INDEPENDENCE PARTY - PROGRESSIVE PARTY COALITION CAN BE CHARACTERIZED AS COHESIVE BUT VULNERABLE AS IT FACES NEW SERIES OF CHALLENGES CHIEFLY IN DOMESTIC ECONOMIC AREA IN 1977. REGARDLESS OF HOW WELL GOVERNMENT MEETS THESE TESTS, NEXT PARLIAMENTARY ELECTION IS NO MORE THAN ROUGHLY 18 MONTHS AWAY, AND SOME POLITICIANS ARE PREDICTING VOTE IN 1977. WHENEVER IT COMES, ELECTION WILL BRING WITH IT NEW PERIOD OF UNCERTAINTY IN US-ICELAND DEFENSE RELATIONS. FOR THE MOMENT, HOWEVER, RELATIONS BETWEEN ICELAND AND THE UNITED STATES ARE GOOD NOW THAT THE SETTLEMENT OF THE CODE WAR HAS ENDED
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THE NATO BASE AT KEFLAVIK AS A PRESSURE POINT TO BE USED AGAINST THE US IN SUPPORT OF ICELAND'S CLAIMS TO THE FISHERIES. END SUMMARY.

1. AS NOTED REFTTEL, GOVERNMENT HAD MARKED ITS SECOND ANNIVERSARY IN STRONGER POSITION THAN AT ANY TIME PREVIOUSLY AFTER HAVING OVERCOME SERIES OF TOUGH CHALLENGES,

INCLUDING WHAT MANY FELT WAS INHERENT INCOMPATIBILITY OF COALITION PARTNERS. ICELAND HAD WON WHAT IT CONSIDERED MAJOR VICTORY IN COD WAR III; ECONOMIC PORTENTS WERE RELATIVELY ENCOURAGING AND PEACE ON LABOR FRONT WAS SECURED UNTIL AT LEAST WELL INTO FOLLOWING YEAR; ALLEGATIONS OF CORRUPTION THAT HAD PLAGUED PROGRESSIVE PARTY HAD LOST MUCH OF THEIR NEWSWORTHINESS OR FADED ALTOGETHER.

2. OUTLOOK MUST BE JUDGED LESS AUSPICIOUS FOR GOVERNMENT AS IT ENTERS 1977. FISHERIES JURISDICTIONAL ISSUE REMAINS UNDER CONTROL, WITH COALITION PARTIES HAVING APPARENTLY REACHED FIRM DECISION ON TOUGH - IF NOT UNCOM-PROMISING -- STAND TOWARD REQUEST FOR NEW FISHING RIGHTS FROM EEC. THIS IS WELL AND GOOD AS LONG AS EEC CONTINUES TO SHOW FOREBEARANCE. ANY PRESSURE BY COMMUNITY ON ICELAND, HOWEVER, COULD EASILY PRODUCE FRICTION BETWEEN COALITION PARTIES SIMILAR TO THAT WHICH EMERGED DURING LAST COD WAR WHEN PP TOOK MARKEDLY HARDER LINE THAN IP AT SEVERAL JUNCTURES. ON ECONOMIC FRONT, WHILE ANTI INFLATION EFFORTS CONTINUE TO SHOW SOME PROGRESS, WAGES ARE STILL NOT KEEPING PACE WITH PRICES; LOW-AND MIDDLE-INCOME WORKERS CONTINUE TO BE SQUEEZED HARD. AS RESULT, ORGANIZED LABOR HAS ANNOUNCED ITS INTENTION TO PUSH FOR SUBSTANTIAL PAY INCREASES IN SPRING CONTRACT TALKS. IF IT STICKS TO THIS DEMAND, RESULT COULD BE GENERAL STRIKE EVEN MORE SEVERE THAN LAST YEAR'S AND/OR INFLATIONARY SETTLEMENT THAT COULD DOOM GOVERNMENT'S HOPES FOR ECONOMIC RECOVERY.

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3. LESS TANGIBLE BUT POTENTIALLY MORE DANGEROUS THREAT TO STABILITY OF PRESENT COALITION IS REVIVAL OF CHARGES OF CORRUPTION AND MISUSE OF POWER AGAINST PROGRESSIVE PARTY. FOREIGN MINISTER AND PP VICE CHAIRMAN EINAR AGUSTSSON WAS LATEST TO BE TAINTED BY ALLEGATIONS (REYKJAVIK 1284). WHILE THIS CAUSED NO IMMEDIATE DAMAGE, RUMORS ARE NOW CIRCULATING THAT FONMIN WILL BE LINKED TO MORE SENSATIONAL ALLEGATIONS IN NEAR FUTURE. MEANWHILE, CRIMINAL JUSTICE SYSTEM, PRESIDED OVER BY PP CHAIRMAN AND JUSTICE MIN OLAFUR JOHANNESSEN, PREVIOUSLY UNDER FIRE FOR ALLEGED SLACKNESS IN PURSUING A CASE INVOLVING SMUGGLING, CORRUPTION AND MURDER, HAS NOW COME UNDER CRITICISM FOR ALLEGED INTERFERENCE WITH STILL ANOTHER INVESTIGATION THAT COULD PROVE EMBARRASSING TO PP. IT IS ALMOST UNIVERSALLY AGREED -- EXCEPT BY PP OFFICIALS SPEAKING FOR RECORD -- THAT PROGRESSIVES ARE BEING HURT BY THE REPEATED ATTACKS AND THAT PARTY WILL ULTIMATELY SUFFER AT POLLS.

4. INDEPENDENCE PARTY HAS, FROM OUTSET, PRESENTED STANCE OF SOMEWHAT UNEASY ALOOFNESS TOWARD ITS PARTNER'S TROUBLES. IP OFFICIALS AND PARTY'S AUTHORITATIVE NEWSPAPER HAVE OFFERED OCCASIONAL GENERALIZED EXPRESSIONS OF DISMAY OVER SIGNS OF MORAL DECLINE IN COUNTRY BUT HAVE AVOIDED ANY PUBLIC CENSURE OF PROGRESSIVES. HOWEVER, AS TIME PASSES AND ALLEGATIONS MULTIPLY, THERE IS LITTLE DOUBT THAT CONCERN IS INCREASING AMONG IP MEMBERS OVER POSSIBILITY THAT SOME OF DISCREDIT WILL RUB OFF ON THEM. PRIVATELY, SOME IP OFFICIALS ARE AMONG HARSHTEST CRITICS OF PP, CLAIMING THAT LATTER IS FINALLY GETTING WHAT IT DESERVES AFTER DECADES OF UNSCRUPULOUS TRADE-OFFS BETWEEN PROGRESSIVES AND THEIR FINANCIAL BACKERS (LARGE COOPERATIVES AND FARM GROUPS). THERE ARE REPORTS, WHICH WE DO NOT FIND FULLY CONVINCING, THAT IP IS SEEKING EARLIEST OPPORTUNITY TO DUMP ITS
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COALITION PARTNER IN ORDER TO SAFEGUARD ITS OWN POLITICAL FUTURE. IN ANY CASE, IT IS CLEAR THAT CORRUPTION ISSUE REMAINS CROSS FOR COALITION TO BEAR, AND ONE THAT WILL NOT MAKE IT ANY EASIER IN THE NEW YEAR FOR GOVERNMENT PARTIES TO PRESERVE HARMONY NECESSARY TO SURMOUNT OTHER PROBLEMS FACING THEM.

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C O N F I D E N T I A L SECTION 2 OF 2 REYKJAVIK 0042

5. FINALLY, COALITION MAY BE SUBJECT TO FURTHER STRAINS DURING COMING MONTHS AS NEXT GENERAL ELECTION (WHICH MUST BE HELD BY 1978) APPROACHES AND GOVERNMENT PARTIES GIVE INCREASING ATTENTION TO RESPECTIVE PARTISAN INTERESTS WITH VIEW TO STRONGEST POSSIBLE SHOWING AT POLLS AND POTENTIAL ROLE IN ANY NEW GOVERNMENT. THE TWO COALITION PARTIES WILL NOT FACE ELECTORATE AS TEAM OR WITH ANY SPECIFIC INTENTION OF JOINING EACH OTHER IN ANOTHER COALITION. THEY WILL IN FACT BE COMPETING FOR MANY OF SAME VOTES AND RUNNING AGAINST EACH OTHER INsofar AS THEIR JOINT RECORD IN OFFICE ALLOWS. WHEN PROSPECTS FOR COALITION PARTIES WERE BRIGHTER, IN WAKE OF COD WAR SETTLEMENT, THERE WAS MUCH TALK OF EARLY ELECTIONS, E.G. IN SPRING OR FALL 1977. THIS TIMETABLE APPEALED ESPECIALLY TO SOME ELEMENTS IN IP WHO WERE ANXIOUS TO GET NATIONAL BALLOT-ING OUT OF THE WAY WELL AHEAD OF 1978 MUNICIPAL ELECTIONS IN REYKJAVIK AND OTHER IP STRONGHOLDS. WHETHER
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OR NOT THIS SPECULATION WAS WELL FOUNDED, IT HAS DIMINISHED RECENTLY, DUE BOTH TO PP'S UNWILLINGNESS TO FACE VOTERS AT THIS TIME AND ABSENCE OF MORE PROMISING ECONOMIC PROSPECTS. IT NOW SEEMS PROBABLE THAT COALITION PARTIES WILL GIVE LITTLE SERIOUS THOUGHT TO ELECTION TIMING AT LEAST UNTIL DESULTORY EEC FISHERIES DISCUSSIONS ARE CONCLUDED AND THEIR DOMESTIC IMPLICATIONS ASSESSED, AND UNTIL PENDING SERIOUS LABOR CONTRACT PROBLEMS ARE FULLY RESOLVED THIS SPRING. THIS WOULD STILL LEAVE PERENNIAL QUESTION OF OVERALL STATE OF ECONOMY AND ITS PROSPECTS TO BE WEIGHED BEFORE DECISION WAS TAKEN ON WHEN TO GO TO POLLS.

6. THE NEED TO RESTORE ECONOMIC STABILITY BROUGHT PRESENT COALITION TOGETHER IN 1974. IT APPEARS UNLIKELY THAT ANY OTHER COALITION COULD BE SUFFICIENTLY FIRM IN DEALING WITH LABOR DEMANDS TO CONTINUE EVEN THE MODERATELY DEFLATIONARY POLICIES IN EFFECT TODAY. ECONOMIC DIFFICULTIES WILL NOT BE CLEARED UP SOON. WITH FOREIGN POLICY ISSUES DEFUSED (FISHERIES AND NEAR-TERM STATUS OF NATO BASE), DOMESTIC -- CHIEFLY ECONOMIC -- PROBLEMS WILL COME INTO SHARPER FOCUS. THUS, AN EARLY ELECTION COULD HAVE A HEAVY IMPACT ON THE PROSPECTS FOR CONTINUED RECOVERY BY THREATENING SURVIVAL OF

PRESENT COALITION'S POLICY OF WAGE RESTRAINT AND DOMESTIC CREDIT RESTRICTIONS. FORTUNATELY FOR COALITION, UNEMPLOYMENT (CURRENTLY ABOUT 0.5 PERCENT) WILL NOT BE AN ISSUE. IF PRESENT FISH EXPORT PRICES REMAIN HIGH, FOREIGN DEBT PROBLEM SHOULD ALSO REMAIN MANAGEABLE. SHOULD ELECTIONS TAKE PLACE AND PRESENT COALITION BE DEFEATED, THERE WOULD BE AMPLE JUSTIFICATION FOR DOUBTING ICELAND'S ABILITY TO DEAL EFFECTIVELY WITH THE COUNTRY'S PERSISTENT DOUBLE DIGIT INFLATION (PRESENTLY 30 PERCENT) AND TO CHECK RAPID GROWTH OF COUNTRY'S ALREADY DISTURBINGLY LARGE EXTERNAL DEBT.

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7. FROM US STANDPOINT, CURRENT COALITION REPRESENTS SUREST NEAR-TERM GUARANTEE OF CONTINUED PRESENCE HERE OF US-MANNED DEFENSE FORCE AT KEFLAVIK AND OF ICELAND'S CONTINUED INTEGRATION INTO NATO DEFENSE SYSTEM GENERALLY. WHETHER ELECTION COMES THIS YEAR OR NEXT, IT WILL BRING WITH IT AT BEST PERIOD OF UNCERTAINTY AS TO ICELAND'S FUTURE DEFENSE POLICY AND, AT WORST (FROM US POINT OF VIEW) RAISE POSSIBILITY OF NEW "LEFTIST" COALITION PLEDGED TO REMOVING DEFENSE FORCE. WHILE ICELAND'S DEFENSE POLICY, THEREFORE, STANDS TO BE DIRECTLY AFFECTED BY COURSE OF DOMESTIC POLITICAL DEVELOPMENTS, REVERSE IS NOT THE CASE. DEFENSE POLICY -- THOUGH ALWAYS A LATENT ISSUE HERE -- IS NOT BURNING QUESTION AT PRESENT AS IT WAS, FOR EXAMPLE, YEAR AGO AT HEIGHT OF FISHERIES DISPUTE. THIS COULD, OF COURSE, CHANGE IF THERE IS SERIOUS FLARE-UP WITH EEC OVER FISHING RIGHTS IN WHICH CASE NATO WOULD DOUBTLESS COME UNDER INTENSE FIRE HERE AGAIN. BARRING THIS, COALITION FORTUNES AND OUTCOME OF NEXT ELECTION APPEAR, AT THIS PRELIMINARY POINT, TO DEPEND MOST HEAVILY ON INTERNAL DEVELOPMENTS OF SORT MENTIONED ABOVE. CONSEQUENTLY, DESPITE OUR IMPORTANT STATE IN EVENTS HERE DURING THE NEXT SEVERAL MONTHS, WE FORESEE LITTLE THAT WE CAN OR SHOULD DO TO EXERT POSITIVE INFLUENCE ON THEM, ASIDE FROM CONTINUING OUR SCRUPULOUS ADHERENCE TO IMPLEMENTATION OF THE 1974 DEFENSE MOU. BY IMPLEMENTING MOU WE STRENGTHEN OUR FRIENDS IN CURRENT COALITION WHO ARGUED FOR CONTINUED US PRESENCE KEFLAVIK. IN THIS CONTEXT OUR ACTIONS COULD HAVE POSITIVE EFFECT ON ABILITY OF COALITION TO SURVIVE LEFTIST ELECTORAL THREAT IN SAME WAY THAT COALITION CLEARLY BENEFITTED POLITICALLY BY UK DECISION TO ADHERE STRICTLY TO OSLO AGREEMENT AND WITHDRAW ITS TRAWLERS ON DECEMBER 1.

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